

Special Access Price Cap
Conversion of
ROR Affiliates of FairPoint

October 23-24, 2012

FairPoint Communications

Overview of FairPoint Petition

- Petition filed March 1, 2012
- Addresses only the rate-of-return study areas.
- Requests ability to convert special access to price cap based on 2011 cost and demand and initialized to 11.25% return, with consumer dividend.
- Leaves CAF under Price Cap CAF rules.
- Leaves switched access under rate-of-return ICC transition plan.
- Planned effective date of January 1, 2013.
- Request relief from detailed separations categorization studies that would be moot.

The Matrix

<i>FairPoint Study Areas</i>	<i>USF thru 2011</i>	<i>Common Line/CAF beg. 2012</i>	<i>TS Switched</i>	<i>TS Special</i>
<i>CALLS</i>	IAS/HCMS	PC CAF	CALLS PC ICC Transition	Price Cap
<i>Price Cap Rural</i>	ICLS/LSS/HCLS	PC CAF	Non-CALLS PC ICC Transition	Price Cap
<i>ROR Rural</i>	ICLS/LSS/HCLS	PC CAF	ROR ICC Transition	Cost/Pool

Overview of Relevant Provisions of CAF/ICC Order

- Rate-of-return carriers associated with Price Cap companies use CAF rules for Price Cap carriers. We expect this to result in significant reductions in CAF for FairPoint's rural properties.
- Switched Access for rate-of-return carriers associated with price cap carriers use ICC Transition associated with carriers which were rate-of-return before 2012. The benefit of this, which was specifically reserved for price cap affiliates, is reduced annual amortization of FY2011 Baseline.
- Special Access is only remaining interstate service under rate-of-return for price cap affiliated rate-of-return carriers and is the only service capable of conversion to price caps.

Why Granting FairPoint's Petition is in the Public Interest

- Initializing special access at 2011 cost and demand, with consumer dividend, is expected to reduce rates by 50%.
- Price cap regulation no longer exists for switched access or common line services.
- Cost Companies affiliated with price cap carriers already operate under CAF designed for price cap carriers.
- Leaving Switched Access under ICC Transition Plan designed for carriers under rate-of-return prior to 2012 benefits end users and retains much needed revenues for high cost rural service areas which are much like other rate-of-return study areas.
- FairPoint gains much needed benefits to reduce administrative costs of performing cost separations studies.
- Study areas will qualify for deregulation of BBIAS, which the FCC has found to be in the public interest.

Required Waivers

- Notice to exit NECA Pool.
- Exit NECA pool on date other than July 1
- Set productivity factor equal to inflation for special access.
- Converted cost study areas may need waiver to stay on rate-of-return ICC transition rules.